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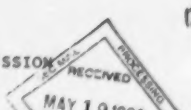
FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549




[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1992

OR

SX92-2251

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

For Quarter Ended March 31, 1992 Commission file number 0-13664

GRANGE NATIONAL BANC CORP
(Exact name of registrant as specified in its charter)

| PENNSYLVANIA | 23-2314065 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| MAIN AND BEE STREETS<br>LACEYVILLE, PENNSYLVANIA | 18623 |
| (Address of principal executive offices) | (Zip Code) |

(Registrant's telephone number, including area code) (717) 869-1522

NOT APPLICABLE
Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No___

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Common Stock, $5 Par Value-87,440 shares as of April 30, 1992.

PROCESSED BY
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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements


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DANIEL KENIA P.C.
CERTIFIED PUBLIC ACCOUNTANT
(717) 836-3668

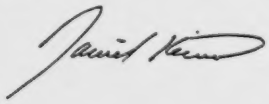
40 BRIDGE STREET
TUNKHANNOCK, PA 18657

The Board of Directors and Stockholders
Grange National Banc Corp.

The accompanying consolidated balance sheet of The Grange National Banc Corp. and Subsidiary as of March 31, 1992 and the related consolidated statements of income, changes in undivided profits, and statements of cash flows for the three months ended March 31, 1992 and 1991 were not audited by me, and accordingly, I do not express an opinion on them.

The financial statements do not contain all of the disclosures required by generally accepted accounting principles. If these required disclosures were included, they might influence the user's conclusions about the bank's financial position, results of operations and changes in financial position.

The financial statements for the year ended December 31, 1991 were examined by me, and my report thereon dated January 9, 1992 expressed an unqualified opinion on those statements. The accompanying consolidated balance sheet as of December 31, 1991 has been derived from these financial statements.



Tunkhannock, Pennsylvania
May 14, 1992

GRANGE NATIONAL BANC CORP. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS, MARCH 30, 1992 AND DECEMBER 31, 1991

| | 1992 (UNAUDITED) | 1991 (AUDITED) |
|---|---|---|
| **ASSETS:** | | |
| Cash and due from banks | $1,399,410 | $1,570,664 |
| Interest bearing deposits | 571,647 | 571,647 |
| Investment securities (market value 1992, $13,838,000; 1991, $15,477,000) | 13,508,202 | 14,806,736 |
| Federal Funds Sold and FHLB | 5,288,443 | 2,999,120 |
| Loans, net | 29,144,616 | 28,002,123 |
| Less: allowance for loan losses | (276,318) | (256,575) |
| Loans, net | 28,868,298 | 27,745,548 |
| Bank premises and equipment, net | 1,312,546 | 1,207,710 |
| Accrued interest and other assets | 656,968 | 602,298 |
| **TOTAL ASSETS** | **$51,605,514** | **$49,503,723** |
| **LIABILITIES:** | | |
| Domestic deposits: | | |
| Non-interest bearing deposits | $3,777,961 | $3,664,148 |
| Interest bearing deposits | 42,677,100 | 40,870,999 |
| Total deposits | 46,455,061 | 44,535,147 |
| Other borrowed funds | 382,154 | 382,971 |
| Accrued interest and other liabilities | 491,819 | 479,359 |
| **Total liabilities** | **47,329,034** | **45,397,477** |
| **STOCKHOLDERS' EQUITY:** | | |
| Common stock authorized 300,000 shares of $5 par value; 87,440 shares issued and outstanding; at March 31, 1992 and December 31, 1991 | 437,200 | 437,200 |
| Additional paid-in capital | 734,400 | 734,400 |
| Retained earnings | 3,105,180 | 2,934,946 |
| Total | 4,276,780 | 4,106,546 |
| Less: Treasury stock, 6 shares at cost | (300) | (300) |
| **Total stockholders' equity** | **4,276,480** | **4,106,246** |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | **$51,605,514** | **$49,503,723** |

See Accounant's Review Report & Notes to Consolidated Financial Statement

GRANGE NATIONAL BANC CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 1992 AND 1991

| (Dollars in thousands, except per share data) | THREE MONTHS ENDED MARCH 31 1992 | 1991 |
|---|---|---|
| **Interest Income:** | | |
| Interest and fees on loans | $788,403 | $718,615 |
| Interest on investment securities | 269,253 | 217,791 |
| Interest on federal funds sold and FHLB | 18,849 | 80,432 |
| Interest on deposits in banks | 9,280 | 17,108 |
| **Total interest income** | 1,105,785 | 1,033,946 |
| **Interest Expense:** | | |
| Interest on deposits | 583,696 | 619,938 |
| Interest on borrowed funds | 7,024 | 2,356 |
| **Total interest expense** | 590,720 | 622,294 |
| **Net interest income** | 515,065 | 411,652 |
| Provision for loan losses | 17,500 | 12,000 |
| **Net interest income after provision for loan losses** | 497,565 | 399,652 |
| **Other Income:** | | |
| Service charges and other income | 57,815 | 49,210 |
| **Other Expenses:** | | |
| Salaries and employee benefits | 157,328 | 139,278 |
| Occupancy expense | 23,400 | 18,778 |
| Equipment expense | 30,521 | 27,117 |
| Other operating expense | 112,897 | 114,025 |
| **Total other expenses** | 324,146 | 299,198 |
| **Income before income taxes** | 231,234 | 149,664 |
| Provision for income taxes | 61,000 | 42,600 |
| **Net income** | $170,234 | $107,064 |
| **Earnings per share** | $1.95 | $1.22 |
| **Weighted average common shares** | 87,434 | 87,434 |

See Accountant's Review Report & Notes to Consolidated Financial Statement

GRANGE NATIONAL BANC CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN RETAINED EARNINGS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 1992 AND 1991

| | 1992 | 1991 |
|---|---|---|
| Balance, January 1 | $2,934,946 | $2,485,304 |
| Net income | 170,234 | 107,064 |
| Balance, March 31 | $3,105,180 | $2,592,368 |

See Accountant's Review Report & Notes to Consolidated Financial Statement

GRANGE NATIONAL BANC CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| THREE MONTHS ENDED MARCH 31, | 1992 | 1991 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income | $170,234 | $107,064 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 21,000 | 18,750 |
| Provision for loan losses | 17,500 | 12,000 |
| Changes in operating assets and liabilities: | | |
| Increase in accrued interest and other assets | (54,670) | (98,694) |
| Increase (decrease) in accrued interest and other liabilities | 12,460 | 11,150 |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | 166,524 | 50,270 |
| **INVESTING ACTIVITIES:** | | |
| Purchase bank premises and equipment | (125,835) | (2,173) |
| Purchase of investment securities | (100,000) | (3,655,914) |
| Sales and redemptions of investment securities | 1,327,861 | 603,124 |
| Decrease (increase) in mortgage-backed securities | 70,672 | 55,685 |
| Increase in loans to customers | (1,140,250) | 1,655,268 |
| Decrease in deposits in banks | | 397,000 |
| **NET CASH USED IN INVESTING ACTIVITIES** | 32,448 | (947,010) |
| **FINANCING ACTIVITIES:** | | |
| Increase in deposits before interest credited | 1,607,297 | 1,357,078 |
| Interest credited to deposits | 311,800 | 421,237 |
| **NET CASH PROVIDED BY FINANCING ACTIVITIES** | 1,919,097 | 1,778,315 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 2,118,069 | 881,575 |
| **CASH AND CASH EQUIVALENTS, JANUARY 1** | 4,569,784 | 5,364,114 |
| **CASH AND CASH EQUIVALENTS, MARCH 31** | $6,687,853 | $6,245,689 |
| **SUPPLEMENTARY SCHEDULE OF CASH FLOW INFORMATION:** | | |
| Cash paid during the year for: | | |
| Interest | $191,239 | $218,814 |

See Notes to Consolidated Financial Statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### 1. BUSINESS COMBINATION AND PRINCIPLES OF CONSOLIDATION:

Grange National Banc Corp. (Company) was organized and incorporated under the laws of the Commonwealth of Pennsylvania on October 2, 1984, for the purpose of becoming a bank holding company. On April 30, 1985, the Company acquired the Grange National Bank of Wyoming County (Bank) pursuant to a plan of reorganization and agreement of merger. The Bank became a wholly owned subsidiary of the Company, and each outstanding share of Bank common stock was converted into one share of Company common stock. The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary (Bank) with the reorganization accounted for as a pooling of interests.

### 2. BASIS OF PRESENTATION:

The accompanying unaudited consolidated financial statements have been prepared in conformity with the accounting principles and practices reflected in the annual financial statements, and reflect all adjustments which are, normal and recurring and in the opinion of management, necessary for a fair presentation of the results of operations for the interim periods. The results of operations reported in interim financial statements are not necessarily indicative of results to be expected for the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION:

Net income for the three months ending March 31, 1992, totaled $170,000, which is a 59% increase from the $107,000 net income reported for the same period in 1991. Net interest income for the three months ending March 31, 1992 increased by $103,000 compared to the first three months of 1991. This net increase is attributable to a $72,000 increase in interest income and a $31,000 decrease in interest expense.

The increase in deposits in the past several years has provided funds for investment in interest earning assets, which coupled with the continuing increase in outstanding loan balances has resulted in a substantial increase in interest income for the first three months of 1992, compared to the first three months of 1991. Deposits at March 31, 1992 totaled $46,455,000 compared to $44,535,000 at December 31, 1991. Loan demand has been very strong during the first quarter of 1992 due to increased demand for commercial loans in Wyoming County, the implementation of an Affordable Housing Program by the Bank, and because of customers desire to make purchases and home improvements while interest rates are low. Average loan balances increased by $3,112,000, or 12.56% during the first three months of 1992 compared to $1,979,000, or 7.98% for the same period in 1991, which resulted in an increase of $70,000 in loan interest income over 1991. The increase in total loans, which is the bank's highest yielding asset, is the primary reason interest income for the first three months exceeds the same period in 1991.

The provision for loan loss during the three months ended March 31, 1992 and 1991 was $17,500 and $12,000 respectively. The allowance for loan loss represents .95% of total loans as of March 31, 1992 compared to .92% for December 31, 1991. Management performs a quarterly analysis of the bank's potential loan losses on a "worst case" basis. This information is closely reviewed by the Board of Directors and used to evaluate the adequacy of the loan loss reserve. Although management is of the opinion that loan quality remains strong, the bank continues to build the loan loss reserve in order to cover identifiable potential losses and provide coverage for unexpected losses. Non-performing loans for the period ending March 31, 1992 totaled $356,000, representing 1.22% of total loans, compared to $262,000, representing .94% of total loans at December 31, 1991. Five foreclosures are currently in process. It is anticipated that in most instances the loans will be paid off prior to foreclosure, but in one other case the bank expects to acquire the real estate.

Investments in securities decreased by $1,299,000, or 8.77% from December 31, 1991 to March 31, 1992. This has been due to maturities and investments with call provisions being called, as anticipated. The average interest rate earned on investments during the first three months of 1992 decreased by .69% compared

to the same period of 1991. The market value of all investments, for the periods ending March 31, 1992 and December 31, 1991, exceeds the bank's acquisition cost for these investments. The interest decrease is due to previous investments at higher interest rates maturing and being replaced by current investments, which generally produce lower yields. Although investment opportunities exist which will produce higher yields they generally contain a higher risk or require a longer maturity. The bank's management has elected to continue with its conservative investment policies which prohibit high risk investments and generally preclude long term fixed rate investments of any significance.

Salaries and employee benefits have increased by $18,000 during the first three months of 1992 compared to the same period in 1991. This is mainly due to annual payroll increases at the beginning of the year, an increase in employee benefit costs, and hiring additional employees for the new office to open in Tunkhannock, Pennsylvania, in June. Other operating expenses have generally increased due to the greater volume of business compared to the previous year. F.D.I.C. deposit insurance premiums also increased by $6,866 for the quarter ending March 31, 1992 compared to the same period of 1991.

Management has made an effort to improve the bank's repricing and liquidity by performing an interest rate sensitivity analysis on a monthly basis. This report in reviewed by management and the Board of Directors to determine ways to improve the bank's interest rate sensitivity gap. As a result, the bank is placing greater emphasis on the utilization of adjustable rate loan products, with repricing to occur on at least an annual or quarterly basis. The bank is also in the process of converting IRA accounts from a 2 year repricing basis to a quarterly basis. In time these changes should greatly improve the bank's repricing opportunities.

During 1990 the Comptroller of the Currency instructed all national banks to perform a "Risk Based Capital" analysis each quarter, to determine if the institution is in compliance with their minimum standards. The "Risk Based Capital" analysis and standards were for informational purposes only for 1990, but became requirements of all national banks beginning in 1991. Risk Based Capital ratios for the period ending March 31, 1992 was 10.27% compared to 11.21% on December 31, 1991. This institution's capital is well in excess of the minimum requirements as determined by the new "Risk Based" analysis and standards.

AVERAGE BALANCES, INTEREST INCOME/EXPENSE AND RATES
FOR THE THREE MONTHS ENDED MARCH 31, 1992 AND 1991

| (Dollars in thousands) | THREE MONTHS ENDED MARCH 31, 1992 (1) AVERAGE BALANCE | INTEREST INCOME/ EXPENSE | AVERAGE INTEREST RATE | THREE MONTHS ENDED MARCH 31, 1991 (1) AVERAGE BALANCE | INTEREST INCOME/ EXPENSE | AVERAGE INTEREST RATE |
|---|---|---|---|---|---|---|
| **INTEREST EARNING ASSETS:** | | | | | | |
| Loans: | | | | | | |
| Mortgages | $16,792 | $515 | 12.27% | $14,915 | $428 | 11.48% |
| Installment | 3,026 | 99 | 13.09 | 3,287 | 108 | 13.14 |
| Commercial | 8,080 | 178 | 8.81 | 6,584 | 187 | 11.36 |
| Total loans | 27,898 | 792 | 11.36 | 24,786 | 723 | 11.67 |
| Investment Securities: | | | | | | |
| U.S. Treasury securities | 4,747 | 95 | 8.01 | 4,406 | 91 | 8.26 |
| U.S. Government agencies | 6,158 | 116 | 7.53 | 4,068 | 86 | 8.46 |
| Municipal Bonds | 1,699 | 40 | 9.42 | 706 | 17 | 9.63 |
| Other securities | 1,831 | 32 | 6.99 | 1,227 | 28 | 9.13 |
| Total securities | 14,435 | 283 | 7.84 | 10,407 | 222 | 8.53 |
| Federal funds sold | 3,885 | 39 | 4.02 | 5,058 | 81 | 6.41 |
| Deposits in banks | 565 | 9 | 6.37 | 824 | 17 | 8.25 |
| TOTAL | $46,783 | 1,123 | 9.60 | $41,075 | 1,043 | 10.16 |
| **INTEREST BEARING LIABILITIES:** | | | | | | |
| Deposits: | | | | | | |
| NOW and super-NOW | $3,538 | 36 | 4.07 | $2,942 | 37 | 5.03 |
| Savings and money market | 13,269 | 157 | 4.73 | 9,257 | 124 | 5.36 |
| Certificates of deposit. | 24,228 | 389 | 6.42 | 23,864 | 456 | 7.64 |
| Other time deposits | 200 | 2 | 4.00 | 200 | 3 | 6.00 |
| Total deposits | 41,235 | 584 | 5.67 | 36,263 | 620 | 6.84 |
| Other borrowed funds | 360 | 7 | 7.78 | 162 | 2 | 4.94 |
| TOTAL | 41,595 | 591 | 5.68 | 36,425 | 622 | 6.83 |
| Non-interest bearing funds, net (2) | 5,188 | | | 4,650 | | |
| **TOTAL SOURCES TO FUND EARNING ASSETS** | $46,783 | 591 | 5.05 | $41,075 | 622 | 6.06 |
| **NET INTEREST/YIELD** | | $532 | 4.55% | | $421 | 4.10% |

(1) Average balances are daily averages. (2) Demand deposits, stockholders' equity and other non-interest bearing liabilities less non-interest earning assets.

NOTE - Tax exempt interest income has been converted to a tax equivalent basis at the U.S. Federal income tax rate of 34%.

See Accountant's Review Report & Notes to Consolidated Financial Statements

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(11) Statement re: computation of earnings per share:

Earnings per share are calculated on the basis of the weighte average number of shares outstanding. The number of shares used to calculate earnings per share for the periods presen for 1992 and 1991 respectively were 87,434 and 87,434.

During the current fiscal quarter, there have been no events of a required to be filed as a report on Form 8-K.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 193 registrant has duly caused this report to be signed on its behal undersigned, thereunto duly authorized.

GRANGE NATIONAL BANC CORP.
(Registrant)

Date _____

Thomas A. McCullough
President
Chief Executive Officer
Chief Financial Officer